

Unemployment Insurance in Washington State: Factors Associated with Benefit Reciprocity

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Introduction

The unemployment insurance (UI) program was established in 1935 and serves two primary objectives: first, on the microeconomic level, to temporarily replace a portion of earnings for workers who become unemployed through no fault of their own; and second, on the macroeconomic level, to include enough of the unemployed and provide sufficient wage replacement, such that its aggregate benefits help stabilize the economy during cyclical downturns. The UI system is made up of 53 state-administered programs¹ that are subject to broad federal guidelines and oversight. In fiscal year 2006, these programs covered about 130 million wage and salary workers and paid benefits totaling \$30.3 billion to about 7.4 million workers.

Federal law provides minimum guidelines for state programs and authorizes grants to states for program administration. States design their own programs, within the guidelines of federal law, and determine key elements of these programs, including who is eligible to receive state UI benefits, how much they receive, and the amount of taxes that employers must pay to help provide these benefits. State unemployment tax revenues are held in trust by the U.S. Department of Labor and are used by the states to pay for regular weekly UI benefits, which typically can be received for up to 26 weeks. During periods of high unemployment, the Extended Benefits program, funded jointly by states through their UI trust funds and by the federal government through the Unemployment Trust Fund, provides up to 13 additional weeks of benefits for those who qualify under state program rules. Additional benefits, funded by the federal government, may be available to eligible workers affected by a declared major disaster or during other times authorized by Congress.

To receive UI benefits, an unemployed worker must file a claim and satisfy eligibility requirements of the state in which the worker's wages were paid. Although states' UI eligibility requirements vary, generally such requirements can be classified as monetary and nonmonetary. Monetary eligibility requirements include having a minimum amount of wages and employment over a defined base period, typically about a year before becoming unemployed, and not having already exhausted the maximum amount of benefits or benefit weeks to which they would be entitled because of other recent unemployment. In addition to meeting states' monetary eligibility requirements, unemployed workers also must satisfy their states' nonmonetary eligibility requirements. Nonmonetary eligibility requirements include being able to work, being available for work, and becoming unemployed for reasons other than quitting a job or being fired for work-related misconduct. In all states, claimants who are determined to be ineligible for benefits are entitled to an explanation for denial of benefits and an opportunity to appeal the determination.

Three trends have become apparent within the UI benefits program. The percentage of the unemployed who receive UI benefits (called, "reciency") has declined slowly, but consistently since the 1940s; and this percentage of recipients has dropped dramatically

¹ Includes the 50 states in the union plus the District of Columbia, Puerto Rico, and the Virgin Islands.

between 1980 and 1984 and has remained at a low rate throughout the 1990s. Entering the 21st century, the UI reciprocity rate has improved only marginally. Do such declines suggest an erosion in the effectiveness of the UI system? While state UI benefits programs have largely mirrored the national UI program, there is wide variation around the national mean. For Washington State, UI reciprocity rate has fallen precipitously in recent years.

Purpose and Structure of Report

The purpose of this report is to examine why Washington State's UI reciprocity rate declined sharply during the last few years. We critically reviewed findings from a literature review to explore the factors others have identified to explain the drop in the UI reciprocity rate in Washington State. This literature review enabled us to identify factors for inclusion in our empirical analysis.

The remainder of this report is divided into three sections. The next section reviews unemployment insurance through measuring who utilizes these programmatic unemployment benefits. What are the various measures of receipt of unemployment benefits used in examining the analytical and policy dimensions of the unemployed? Second, a comparative trend analysis of the UI program in the nation and Washington State is presented by looking at these UI reciprocity rate measures. Finally, we assess the various factors behind these falling reciprocity rates in Washington State.

Measuring Who Receives Unemployment Insurance

Over the past few years, about one-third of the unemployed workers (counted as part of the total unemployed by the Current Population Survey) file for unemployment insurance benefits. These individuals are called the insured unemployed. The proportion of total unemployed filing for or collecting unemployment insurance is generally known as the reciprocity rate. There are various forms of reciprocity rates, involving different measures of the total unemployed and the insured unemployed and with different meanings and divergent policy connotations.

The Current Population Survey (CPS) presents a global measure of unemployment. Based on a sample survey of households, it identifies all persons out of work who are seeking jobs during any particular week of the month. All jobseekers, regardless of whether they lost or left previous jobs, whether they were re-entering the labor force or entering it for the first time, whether their labor force attachment could be described as strong or tenuous, and whether their period of unemployment was merely one week or several years, are included in this CPS definition.

By contrast, the insured unemployed is a more restricted concept based on completely different sources of information. The insured unemployed are all persons who enter into the unemployment insurance system. These persons have met the tests of initial eligibility for benefits and are either claiming or actually receiving benefits for a week of unemployment. Because of what it means to be within the unemployment insurance system, they are generally workers with such characteristics as strong recent attachment to the labor force who are involuntarily separated from their jobs and are able, as well as available for and actively seeking work. In contrast to the CPS definition, they may have some wages and still be counted as unemployed, but because the duration of the period in which they receive unemployment insurance is limited, most will have been unemployed for a period of less than six months. This number of insured unemployed is counted weekly from administrative records.

Reciprocity rates are of interest for both analytical and policy purposes. Analytically, the relationship between the insured unemployed and the total unemployed is important, especially if it is stable or predictable. CPS is widely used in making national estimates of employment and unemployment for all workers and for subgroups, and the CPS unemployment measures have a direct relationship to many macroeconomic variables utilized in tracking and forecasting national economic activity. However, because of its sample size and design, the CPS is of limited use for estimating many state and sub-state unemployment rates. Estimates for states and local areas are thus frequently made using data on the insured unemployed—derived from universe counts and available for areas as small as local office service areas as a base. Local area unemployment statistics (LAUS) is of great interest to the unemployment insurance program. For budgetary and program-planning purposes, estimates of future volumes and costs associated with the unemployment insurance program are necessarily derived from estimates of total unemployment, because this is the measure used in macroeconomic forecasting models.

As mentioned earlier, reciprocity rates are key measures of the UI program. The focus may be either microeconomic or macroeconomic, derived from the fact that the unemployment insurance system has interrelated goals embracing both dimensions. Its narrower, albeit more insurance-based microeconomic goal is to provide income support to individual unemployed workers who meet specified criteria. Macroeconomically, the program is intended to help stabilize economic activity, particularly during downturns in the business cycle.

The emphasis on these two dimensions varies with the business cycle, as does the corresponding effect upon the reciprocity rate measure. During periods of economic expansion, when the regular-program reciprocity rate reaches its cyclical low point, measures of reciprocity are examined from the standpoint of the adequacy of the unemployment insurance program. A frequently asked question is why don't more of the total unemployed collect benefits from the basic 26-weeks' program. During such times, policymakers are likely to call for improvements in the provision of benefits by broadening the eligibility conditions.

During recessions, concern usually shifts away from the issue of regular-program reciprocity. The composition of the unemployed changes with the influx of job losers and as consequence, the rate of reciprocity rises. The fall-out of concern about the adequacy of the regular UI program is generally assuaged during recessionary periods. However, during these times entitlements from the regular program are exhausted at a higher rate and concerns turn to how many unemployed workers are leaving the program without additional income support. Policy issues shift toward whether unemployment insurance benefits are of adequate duration to prevent excessively high rates of exhaustion and whether how, and for how long the Congress should provide extended benefits.

Measures of Reciprocity

Generally, reciprocity rates have different meanings and because they are the ratio of two different measures, forces underlying movements in both (i.e., numerator and denominator) need to be understood to properly appreciate these rates. Reciprocity rates also affect any discussion of the adequacy of the unemployment insurance program and as a result need to be selected carefully in any policy decision.

The reciprocity rate is typically defined as the proportion of total unemployed receiving unemployment insurance benefits. While the denominator—the level of total unemployment—used in the construction of this measure as measured by the Current Population Survey, either one of two numerators denoting the insured unemployment has been used. The most common measure is those receiving benefits in the regular unemployment insurance program, which pays up to 26 weeks of benefits in nearly all States. Less commonly, the measure is the insured unemployed for all programs, including the regular program, as well as programs for Federal employees and ex-military personnel, and extended benefit programs.

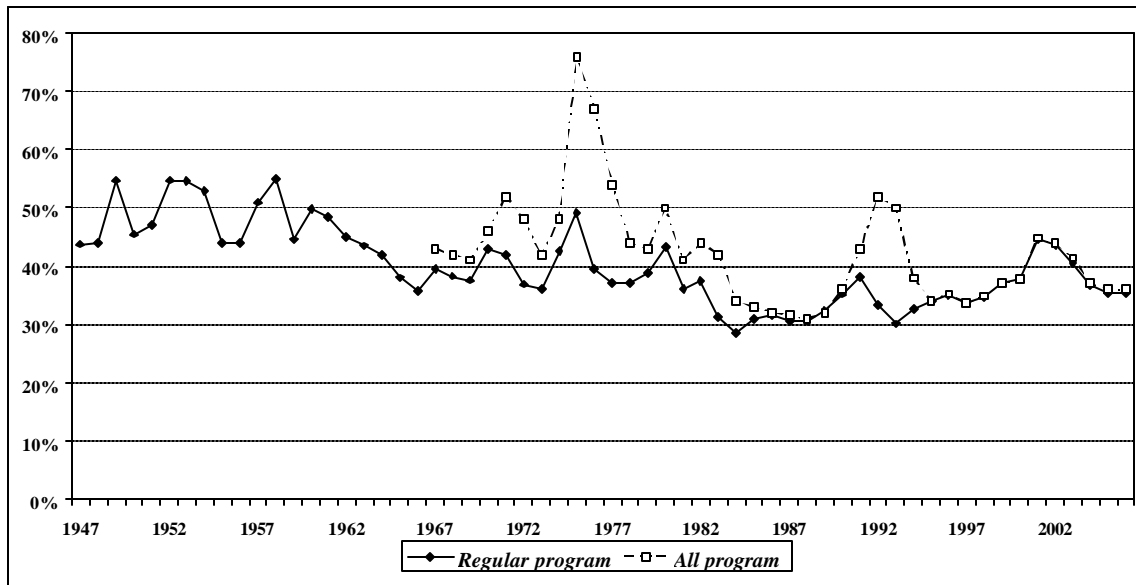
Most analytical work has utilized the *regular-program reciprocity rate*. This rate is easier to use because it relates to a permanent program that changes its rules only very slowly,

with the occasional enactment of State or Federal legislation. The *all-program reciprocity rate*, on the other hand is affected by cyclical and episodic changes in extended benefit programs. The permanent extended benefit program becomes available in a number of states during recessions, based on certain triggers associated with the insured unemployment rate; temporary emergency extended benefit programs also are usually enacted by the Congress after the onset of a recession.

Trends in UI Reciprocity Rates

Figure 1 shows reciprocity rate for the regular program from 1948 through 2006 and for all programs from 1967 through 2006. In general, the figure reveals that the regular program reciprocity rate has a general downward trend over the years with some improvement occurring during the late 1990s into the first decade of the 21st century. The regular program rate also shows a sharp decline in the early 1980s; fostering widespread interest in explaining both the downward trend over the entire post WW II period, and the discontinuity that occurred in the early 1980s, and more recently, the improvement in the reciprocity rate during the 2000s.

Figure 1. UI Reciprocity Rates in the United States, 1947-2006



Source: US Department of Labor, Employment & Training Administration

The range of the national unemployment insurance reciprocity rates over the post-World War II period has been very wide. The regular-program reciprocity rate has been as high as 58 percent in 1946 and as low as 29 percent in 1984. The all-program reciprocity rate has been as high as 75 percent in 1975 and as low as 32 percent in 1987 and 1988. In the most recent year of 2006 the regular-program reciprocity rate was 35 percent; and because very few states² paid any extended benefits during the year, the all-programs reciprocity rate was essentially the same.

Figure 1 also illustrates the cyclical movement of reciprocity rates, rising during economic recessions and declining during economic expansions. For the regular-program reciprocity rate, the upward movement is largely due to increases in the number of job losers because of layoffs during recessions. For the all-program reciprocity rate, adding the insured unemployed from the permanent and temporary extended benefit programs to the insured unemployed for the regular program raises replacement results

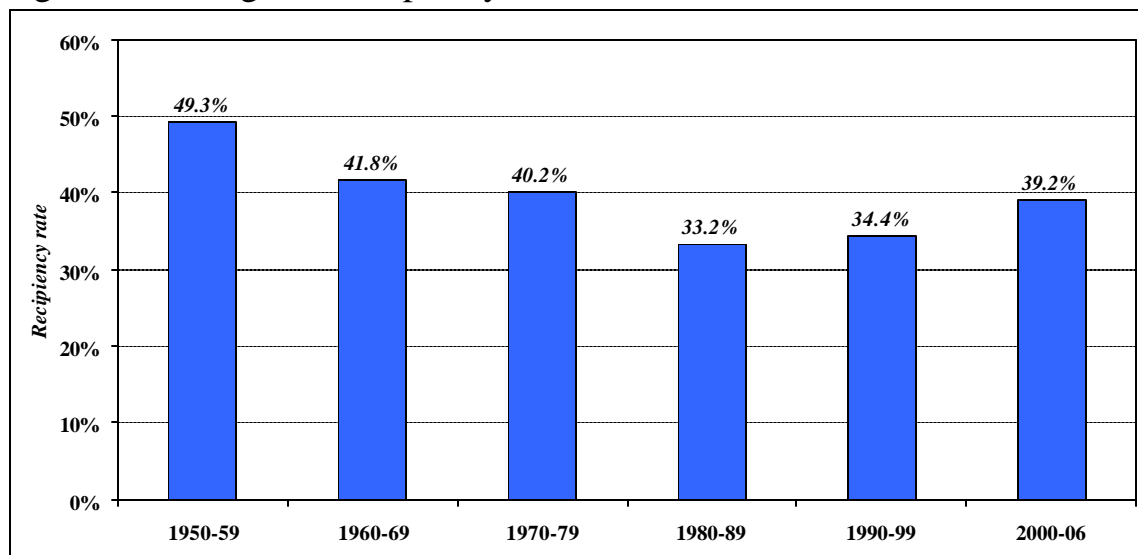
² Exceptions were the gulf states of Louisiana and Mississippi due to the effects of Hurricane Katrina.

dramatically during recessions. The rise is associated with providing substantial increases in the duration of benefits to covered unemployed workers who would otherwise have exhausted their entitlement to benefits.

Normally, the all-program reciprocity rate exhibits cyclical movements similar to the regular-program. The other programs simply amplify the cyclical increase in the regular-program reciprocity rates during recessions. However, the 1992-1994 period stands out in sharp contradiction to this pattern, when the regular-program reciprocity rate went down, while the all-program rate went up substantially. This occurred due to a significant rule change: a legislative provision temporarily allowed certain unemployment insurance claimants to file directly for benefits under the temporary Federal Emergency Unemployment Compensation program prior to collecting their regular-program entitlement. A substantial part of the benefits that would have otherwise been paid out of the regular program were instead paid by the emergency program. The result was a suppression of the regular-program reciprocity rate during the 1992-1994 period and with the termination of the emergency program in 1995, both reciprocity rates returned to their more normal behavior.

Despite the steadily increasing coverage of the UI program among employed workers, the percentage of unemployed filing for UI benefits is countercyclical and has generally, but gradually declined since the 1950s (Figure 2). During its first full decade (1950s), the regular-program rate averaged about 50 percent of the unemployed filed for UI, but continued to slide downward during the 1960s and 1970s and most sharply during the 1980s with only one-third of the unemployed filed for UI benefits. The average reciprocity rate during the 1990s and the early 2000s have recovered somewhat, with about 39 percent of the unemployed filed for UI.

Figure 2: Average UI Reciprocity Rates in the United States: 1950-2006



Reciprocity Rates across the States

There are wide differences in the regular-program reciprocity rates across States. Using average rates the most recent seven-year period from 2000 to 2006, the percent of unemployed filing for UI benefits was calculated for each state. As shown in Table 1, the rates varied from 59.3 percent in Massachusetts to 21.3 percent in South Dakota. Washington State, with a regular-program reciprocity rate of 42.6 percent was ranked eighteenth among all states³ and well above the national mean of 38.7 percent.

The considerable variation across states and Census regions signify long-standing patterns in reciprocity: rates with tendencies toward being highest in the Northeast (New England and Middle Atlantic) and Pacific regions and lowest in the South and in much of the Mountain region. Why the wide variation in reciprocity rates across States and regions? It is likely that several factors are responsible for the wide variation in the regular-program reciprocity rate across states. For instance, several researchers have indicated that it is partly a result of differences in state monetary and nonmonetary eligibility requirements. States with tighter eligibility requirements generally have lower regular-program reciprocity rates. Another potential factor is the variation in the wage-replacement rate for UI benefits across states. States with high replacement rates provide a higher incentive to apply for rates. Additionally, it is likely that the economic and industrial composition of the state has a substantial effect on a state's regular-program reciprocity rate. For example, states that have a higher share of union membership tend to have a higher regular-program rate compared to other states with a different composition of unemployed workers.

³ Other Northwest states were ranked higher than Washington: Alaska (#2); Idaho (#10); Oregon (#12); and Montana (#17). California was ranked fifteenth among all states.

Table 1. Reciprocity Rates of States, unweighted averages, 2000-2006

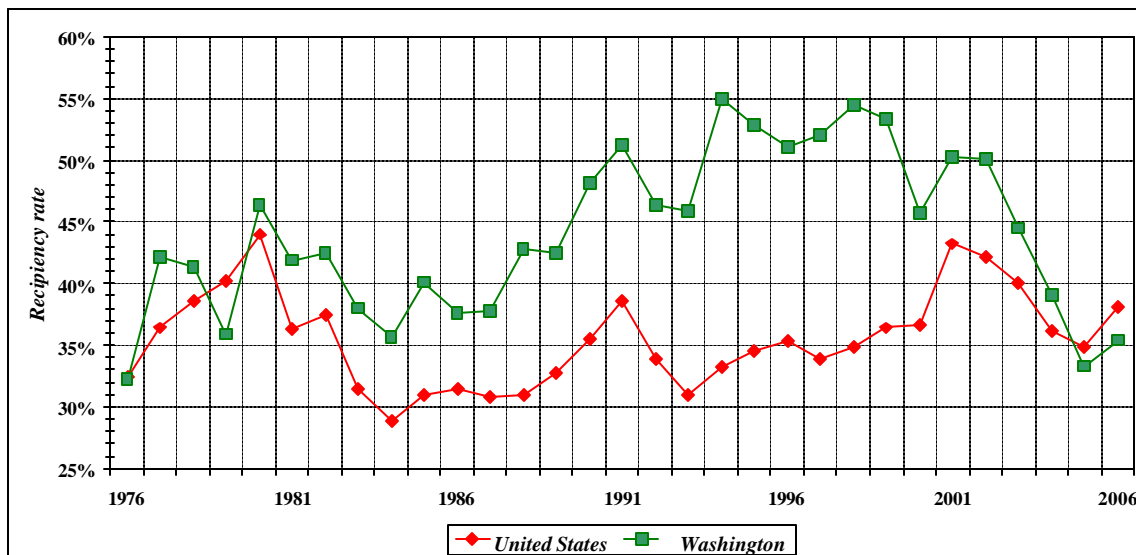
Census Region	Percent	Census Region	Percent
Northeast		Midwest	
<i>New England</i>	47.6%	<i>East North Central</i>	42.4%
Connecticut	58.6%	Illinois	41.3%
Maine	38.0%	Indiana	36.7%
Massachusetts	59.3%	Michigan	45.0%
New Hampshire	26.5%	Ohio	34.9%
Rhode Island	49.1%	Wisconsin	53.9%
Vermont	54.0%		
		<i>West North Central</i>	35.2%
<i>Middle Atlantic</i>	51.9%	Iowa	42.9%
New Jersey	55.9%	Kansas	32.6%
New York	41.5%	Minnesota	41.8%
Pennsylvania	58.3%	Missouri	38.5%
		Nebraska	34.1%
South		North Dakota	35.5%
<i>South Atlantic</i>	34.8%	South Dakota	21.3%
Delaware	50.1%		
District of Columbia	31.8%	West	
Florida	28.0%	<i>Mountain</i>	33.7%
Georgia	29.7%	Arizona	25.7%
Maryland	33.7%	Colorado	25.3%
North Carolina	37.8%	Idaho	48.7%
South Carolina	35.8%	Montana	42.9%
Virginia	29.3%	Nevada	43.5%
West Virginia	36.9%	New Mexico	27.1%
		Utah	26.1%
<i>East South Central</i>	32.6%	Wyoming	30.1%
Alabama	35.3%		
Kentucky	30.6%	<i>Pacific</i>	46.5%
Mississippi	29.5%	Alaska	58.9%
Tennessee	35.0%	California	43.2%
		Hawaii	42.5%
<i>West South Central</i>	32.9%	Oregon	45.3%
Arkansas	47.9%	Washington	42.6%
Louisiana	31.4%		
Oklahoma	27.0%		
Texas	25.3%	United States	38.7%

Source: U.S. Department of Labor, Employment & Training Administration.

Reciprocity Rates and Washington State

Historically, the regular-program reciprocity rate in Washington State has trended well above the national mean (Figure 3). The Washington State regular-program reciprocity rate has exhibited similar characteristics with the national regular-program reciprocity rate. In general, both rates have shown countercyclical tendencies with the percentage of unemployed filing for UI benefits increasing during recessionary periods and declining during periods of economic recovery and expansion. During the thirty-year time series, the regular-program reciprocity rate in the state has fallen under the national average only three separate years: 1979, 2005, and 2006.

Figure 3. Annual Reciprocity Rates in the United States and Washington, 1976-2006

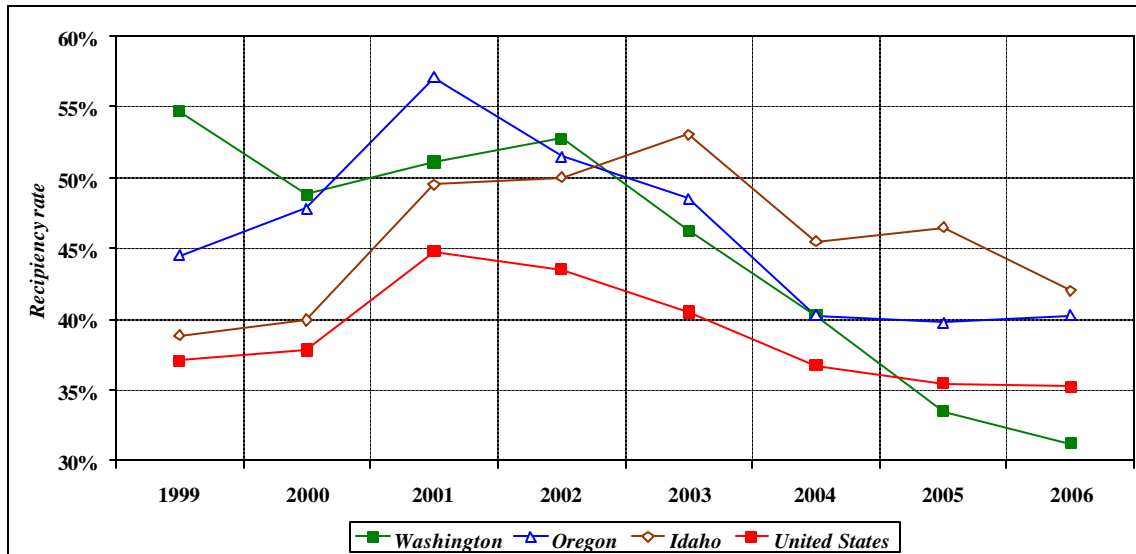


Source: U.S. Department of Labor, Employment & Training Administration.

The recent trend in declining reciprocity rates for Washington State is more dramatic compared to other states within the Pacific Northwest region (Figure 4). While other Pacific Northwest states remained above the national mean, Washington State fell below the U.S. average in 2005 and 2006.

Why are these particular years viewed as exceptions to the general rule of Washington State achieving higher reciprocity rates than the national mean? Are there any particular factors of attribution for Washington State's reciprocity rate falling below the national mean? In the following section, we discuss the possible reasons behind the recent erosion in reciprocity rates for the United States, and more specifically, for Washington State.

Figure 4. Annual Average UI Reciprocity Rates for Washington State, Oregon, and Idaho: 1999-2006



Source: U.S. Department of Labor, Employment & Training Administration.

Factors behind the Trends in UI Reciprocity

Long-Term Decline

Although there is no consensus about the causes of general decline in the reciprocity rate, certain factors are commonly considered significant. A primary cause in the long-term decline in reciprocity is related to the changing demographic composition of the jobless. When the unemployment insurance program was first developed during the Great Depression, it was directed principally at adult males who headed households in which they were the sole wage earner. The adult males/sole wage earner was the most common form of labor market participation at that time. Throughout the 1960s and 1970s, labor force participation by women and youths increased greatly, as did the proportion of multiple wage earner households. Women and youth also made up a higher percentage of the unemployed. The resultant effects of these demographic changes include far more workers with limited labor force attachment to qualify for UI benefits when they become employed; men of prime working age—those most likely to receive UI benefits—declined considerably as a percentage of the unemployed; and unemployed workers are frequently no longer the sole support of their families, also limiting the necessity of filing for and receiving UI benefits. These demographic changes continued, even accelerated in the 1980s and 1990s; and collectively had a negative effect on the reciprocity rate.

The decline in the reciprocity rate was partially the result of increases in UI coverage. Newly covered employees in the 1970s and 1980s were probably less likely to apply for UI benefits compared with previously covered groups. As a result, the insured unemployment rate (i.e., the number claiming UI benefits as a percentage of jobs covered by the UI program) declined because of the increased overall coverage of the system.

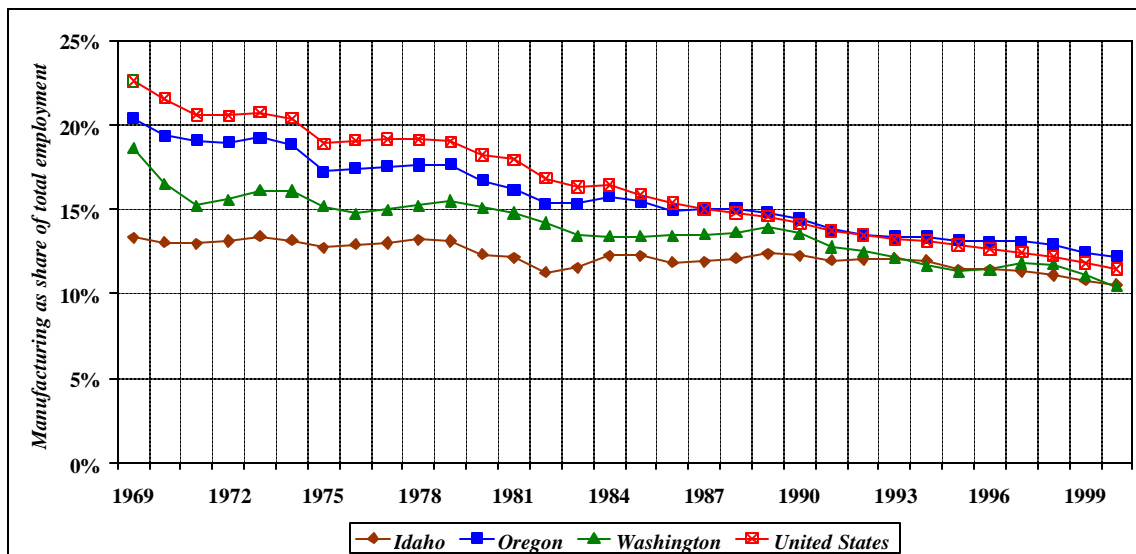
By and large, these broad demographic changes were in evidence across the states. Labor force participation by women and youth in Washington State were comparable to other states; likewise, the increase in multiple earner households. And, an increased number of workers in Washington State became covered by the UI system.

Other factors that parallel the long-term reciprocity decline include the decrease in the number of workers employed in manufacturing jobs and the decline of union membership in the workforce.

Over the past half-century, the number of workers in manufacturing jobs has declined in the United States, as has the number of workers who are union members. Other studies suggest that the steady decline in workers in manufacturing jobs and union membership has adversely affected participation in the UI program. Traditionally, both the manufacturing industry and unions have encouraged labor practices that are treated favorably in UI programs. For instance, union members are more likely to be laid off than fired—a practice that makes workers eligible for UI benefits. Manufacturing firms tend to have layoffs of large numbers of workers who are eligible for UI benefits. Further more, both manufacturing workers and union members are more apt to be better informed about UI benefits.

Prior research (Blank and Card, 1991; Baldwin and McHugh, 1992) attributes a portion of the decline in reciprocity to significant structural change within the economy. Industrial shifts as illustrated by the trend in manufacturing as a share of total employment declined by nearly one-half between 1969 and 2000 (Figure 5). More pointedly, results from prior studies indicate that high shares of manufacturing employment are correlated with high reciprocity rates. Given the overall declines in manufacturing employment shares across the states, it is expected that reciprocity rates would be lower. UI benefits have correspondingly shifted toward the trade and services sectors, and this shift has contributed to the decline in the reciprocity rate. Service and trade sector workers are far less likely to apply for UI benefits compared to manufacturing workers. This structural shift from manufacturing toward services has occurred across the nation; the industrial shift in Washington State, like other states in the Pacific Northwest region, mirrors that of the nation.

Figure 5. Manufacturing Employment as a Share of Total Employment, 1969-2000: Idaho, Oregon, Washington and United States



Source: U.S. Bureau of Economic Analysis, REIS

A recent study by the US Government Accountability Office (2006) found that unemployed workers in certain industries were more likely to receive UI benefits and experience shorter durations of unemployment than otherwise similar workers from other industries. Findings from the GAO study show that first-time unemployed workers from mining and manufacturing are more likely to receive UI benefits than workers from other industries (Table 2). For instance, first-time unemployed workers from the manufacturing sector are about two-thirds more likely to receive UI benefits than workers from the professional and related services industries. Although miners are far more likely to receive UI benefits than workers from other industries, mining represents one of Washington State's smallest sectors in terms of employment.

Table 2. Likelihood of receiving UI Benefits for U.S. industry and share of total employment for Washington State, 2005

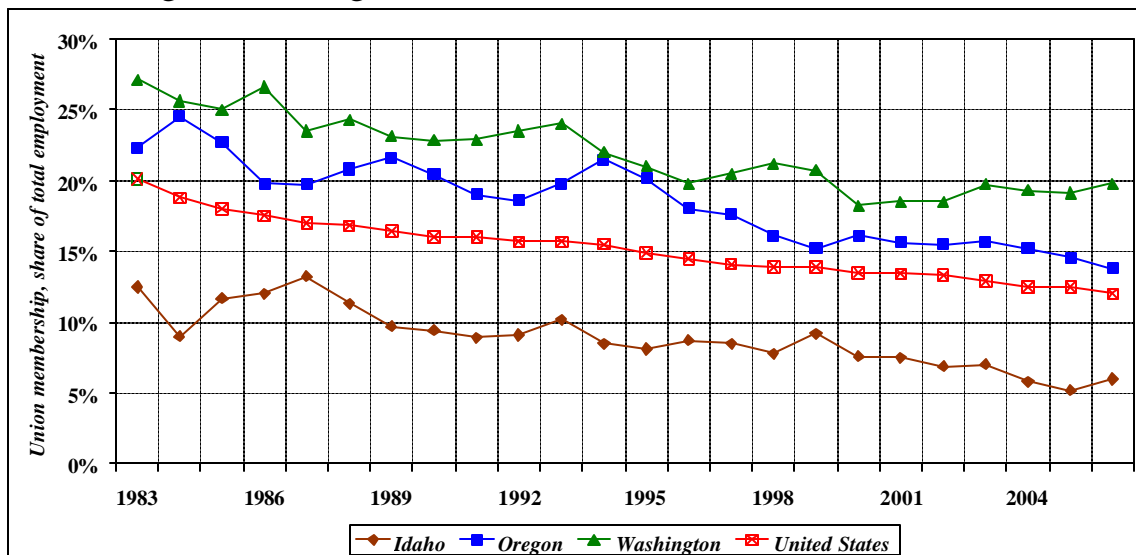
Industry	Likelihood of receiving UI benefits, U.S.	Share of total employment, Washington State
Mining	46%	0.1%
Manufacturing	40%	7.7%
Public administration	37%	16.0%
Wholesale and retail trade	35%	14.5%
Agriculture, forestry & fishing	34%	3.4%
Business services	31%	3.2%
Construction	31%	6.4%
Finance, insurance & real estate	31%	8.1%
Transportation & public utilities	29%	3.0%
Entertainment & recreation services	26%	2.3%
Professional & related services	24%	3.5%
Personal services	23%	5.4%
Other industries	NA	26.3%
All industries	33%	NA

Sources: US Government Accountability Office, 2006; U.S. Bureau of Economic Analysis

Between 1983 and 2006, the percentage of unionized employees in the United States decreased by over 40 percent. Today, only one in eight workers is a member of a union; down from one in five workers less than a twenty-five years ago (Figure 6). Unions represent a powerful conduit for information regarding available UI benefits for unemployed workers. Consequently, the decline in union membership could have exacerbated problems related to distribution of information among the unemployed. Unions often run the UI gauntlet for its members, assisting its members to file UI claims. Furthermore, many union members are eligible only for supplemental unemployment benefits paid by their union if they apply for the regular-program UI benefits.

Prior studies (Blank and Card, 1991; Baldwin and McHugh, 1992; Vroman, 1999) attribute a significant portion (25-30 percent) of the decline in reciprocity to the fall off in union membership. In addition, unions play an extremely important role in providing information; underscored by noting that the most important reason for not applying for UI benefits is unemployed workers' belief that they are ineligible for UI. Inability to understand these eligibility conditions may cause eligible unemployed workers to fail to apply.

Figure 6. Union Membership as a Share of Total Employment, 1983-2006: Idaho, Oregon, Washington, and United States



Source: U.S. Bureau of Labor Statistics.

Short-term Decline

The foregoing analysis is more oriented toward long-term effects of labor force trends, structural change in the economy, and demographic shifts. Surely, these factors are responsible for a sizeable portion of the decline in the reciprocity rate. While the combination of some or all of these factors probably contributed as well to the short-term decline in reciprocity rates, there still remains a considerable portion of the decline unexplained. Much of these short-term factors are driven by policy directives based on Federal and State laws surrounding the UI program. Over the past five plus decades, both the Federal government and several States have tightened their UI regulations, increasing limitations on eligibility for UI benefits, thereby affecting program participation.

Since 1935, Congress has made numerous legislative actions affecting unemployed workers and the UI system as a whole. Some of the more significant changes include:

- Federal extensions of UI benefit—extending the length of time the unemployed workers can collect UI benefits, particularly during recessionary periods.
- Modification of UI benefit eligibility provisions—establishing its own eligibility requirements that superseded some State UI eligibility rules.
- Elimination of UI benefits' tax exempt status—beginning in 1979, UI benefits became subject to Federal income tax.
- Reform of Federal policy regarding loans to State UI programs—up until 1982, States could borrow from the Federal unemployment account and pay back their debt with little or no financing costs. As a result of this mass borrowing, Congress authorized several changes to increase the financial incentives for states to repay their loans and thereby regain trust fund solvency.

Collectively, these provisions had a dampening effect on the reciprocity rate. For instance, reforming Federal policies regarding loans to State UI programs might well have induced several states—including Washington State—to tighten their UI eligibility requirements and thereby reduce UI benefits. The Federal taxation of UI benefits could have contributed to the decline in the reciprocity rate by reducing the overall payout by applying for benefits. Overall, between 11 and 23 percent of the total decline in the reciprocity rate can be attributed directly to various Federal policy changes in the UI program (Corson and Nicholson, 1988). A later analysis (Anderson and Meyer, 1997) indicated that the taxation factor alone accounted for about 25 percent of the UI reciprocity decline from 1979 to 1987. While there are some shortcomings to the analysis, the weight of evidence indicates that these factors had a negative effect on the UI reciprocity rate.

The General Accountability Office (GAO, 1993) surveyed state monetary eligibility standards and disqualifications during the 1980s following some of these major Federal changes in the UI program and found that forty-four states tightened either their monetary and/or nonmonetary standards. For instance, the minimum earnings requirements were generally higher in states that had the lowest trust fund balance. While many of these State changes were probably the result of Federal incentives to tighten eligibility, determining the precise impact changes is impossible. States instituted a wide variety of legislative changes to increase their trust fund balances, tighten their eligibility requirements or both.

One major limitation in tracking changes in State UI laws is that their complexity might hide an administrative policy change that affected the way a state processes claims. Corson and Nicholson (1988) note such difficulties and point to several specific reasons: increased denial rates for disqualifying income; increases in minimum earnings required to qualify for UI; increases in the denial rate for misconduct; changes in voluntary separation standards; reductions in maximum duration of benefits; and changes in wage replacement rates. Other studies (notably Burtless and Saks, 1984; and Baldwin and McHugh, 1992) conclude that State legislative and administrative changes are the primary cause of the decline in the reciprocity rate. Baldwin and McHugh quantified these State policy changes, accounting for more than half of the decline in reciprocity. Still others (The Lewin Group, Inc., 1999) conclude that while administrative and policy changes in State UI programs might explain a substantial portion of the reciprocity decline, it is not possible to estimate the magnitude with any precision.

Whither Washington State? Have changes in Washington State's UI program affected the reciprocity rate? In recent years, Washington State has implemented several important legislative and administrative changes in its UI program. The most important changes were made in 2003 in 2ESB 6097 which modified several provisions affecting UI taxes and benefits. Four changes in benefits were: the freeze on the weekly benefit maximum at \$496 and a reduction in the indexation percentage from 70 percent of average weekly wages to 63 percent; change in the computation of weekly benefits from using earnings in the two high quarters of the base period to using three high quarters in 2004 and all four quarters in 2005; increased disqualifications for voluntary quits; and a reduction in

maximum potential benefits duration from 30 weeks to 26 weeks. Collectively, these changes have reduced total payouts for the Washington State UI program.

In early 2005, bill EHB 2255 was enacted with two important benefit provisions; namely, the basis for computing weekly benefits was changed back to using two high quarters rather than using four quarters that had commenced in January; and the statutory replacement rate was reduced from 52 percent to 50 percent of two high quarter wages.

Other important eligibility and administrative changes in Washington over the last five years center on the 2001 enacted program of Job Search Reviews (JSR) that required selected claimants to appear in local “one-stop” local offices to discuss re-employment strategies and document their job search activities. Later in 2005, a second program—Reemployment and Eligibility Assessment (REA), was established to focus on continuing eligibility. Similar to the JSR, REA participants are required to appear in local offices when called and must keep written logs of their job search activities.

Administrative data show that the number of determinations and denials on issues related to continuing eligibility for UI benefits (e.g., able and available to work and reporting requirements) have risen sharply since 2000 (Table 3).

Table 3. Denials of Eligibility in Washington State UI Program, 2000-2005

Year	Voluntary Quits	Misconduct	Able & Available	Reporting Requirements	Other Non- job-related	Total
2000	31,836	11,782	19,912	7,973	20,638	92,141
2001	37,302	13,393	33,686	15,049	24,624	124,054
2002	40,431	14,086	43,217	18,178	15,487	131,399
2003	37,468	12,790	39,584	16,089	13,540	119,471
2004	35,640	13,431	45,703	28,307	8,545	131,626
2005	32,292	13,672	42,173	38,267	9,445	135,849

The collective effect of these new eligibility requirements and administrative changes are increased denials; up 47 percent between 2000 and the most current year of data, 2005. Denials on non-job-related issues (i.e., able & available, reporting requirements, and other non-job-related) nearly doubled from 48,500 in 2000 to 89,900 in 2005. These recent State legislative and administrative changes might well explain a substantial portion of the sharp decline in Washington State’s reciprocity rate that appears to be unexplained by other factors.

Appendix A: Glossary of Terms

Average Benefits per first payment. Benefits Paid for all weeks compensated divided by the number of first payments.

Average Duration. The number of weeks compensated for the year divided by the number of first payments.

Benefits Paid. The Unemployment benefits paid to individuals under a state program, usually the first 26 weeks of benefits, for all weeks compensated including partial payments.

Covered Employment. The number of employees covered by Unemployment Insurance reported to the states by employers.

Exhaustions. Number of claimants drawing the final payment of their original entitlement for a given program.

Exhaustion Rate. A rate computed by dividing the average monthly exhaustions by the average monthly first payments. To allow for the normal flow of claimants through the program, the numerator lags the denominator by 26 weeks, e.g., the exhaustion rate for CY 1995.3 is computed by dividing the average monthly exhaustions for the twelve months ending September 1995, by the average monthly first payments for the twelve months ending March 1995.

Extended Benefits. The supplemental program that pays extended compensation during periods of specified high unemployment in a state to individuals for weeks of unemployment after exhaustion of regular UI benefits. One-half of extended benefits is funded by the state trust fund.

First payments. The first payment in a benefit year for a week of unemployment claimed under a specific program. This is used as a proxy for "beneficiaries" under a specific program.

Initial claims. Any notice of unemployment filed (1) to request a determination of entitlement to and eligibility for compensation or (2) to begin a second or subsequent period of eligibility within a benefit year or period of eligibility.

Insured unemployed. The average number of weeks claimed for the three months of the quarter.

Insured unemployment rate (IUR). The rate computed by dividing Insured Unemployed for the current quarter by Covered Employment for the first four of the last six completed quarters.

Reciency rate. The insured unemployed in regular programs as a percent of total unemployed.

Taxable wages. Wages paid to covered employees that are subject to State Unemployment Insurance taxes.

Total unemployed. The average number of individuals, 16 years of age or older, who do not have a job but are available for work and actively seeking work in the week of the 12th for the three months of the quarter. This includes individuals on layoff and waiting to report to a new job within 30 days. (Bureau of Labor Statistics-Not Seasonally Adjusted)

Total unemployment rate (TUR). The rate computed by dividing Total Unemployed by the Civilian Labor Force. (Bureau of Labor Statistics)

UCFE. Unemployment Compensation for Federal Civilian Employees

UCX. Unemployment Compensation for Ex-Service Members

Weeks Claimed. The number of weeks of benefits claimed, including weeks for which a waiting period or fixed disqualification period is being served. Interstate claims are counted in the state of residence.

Weeks Compensated. The number of weeks claimed for which UI benefits are paid. Weeks compensated for partial unemployment are included. Interstate claims are counted in the paying state.

Source: Department of Labor, Employment and Training Administration.

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